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TAGS: PGOV PREL MD

SUBJECT: MOLDOVA: ECONOMIC SQUEEZE NON-COMMUNIST LEADERS

REF: A. CHISINAU 250

1B. CHISINAU 171

1C. CHISINAU 009

1D. 07 CHISINAU 1509

Classified By: Ambassador Michael D. Kirby for reasons 1.4(b) and (d)

11. (C) SUMMARY: Over the past several months, the Communist Party of Moldova (PCRM) seems to have used economic pressure to punish and hamper the ability of non-Communist leaders to govern. Demanding payment for historic debts incurred by a Communist predecessor and manipulating the non-transparent budget allocation process, the PCRM has incrementally tightened the financial tourniquet. Gagauzia governor (Bashkan) Mihail Formuzal recently told us of economic pressure on Gagauzia that were reminiscent in tactic to the attacks on Chisinau's Liberal Party mayor. The PCRM's actions appear to be part of a pre-election effort to discredit the opposition by proving its inability to govern. END SUMMARY.

PAYING FOR 2007, LOOKING FORWARD TO 2009

12. (C) Following the 2007 local elections, the PCRM-controlled Government of Moldova (GOM) has exerted considerable financial pressure on opposition-controlled local governments. The rumblings began last fall following the adoption of the national budget and a disproportionate distribution of funding for infrastructure projects in PCRM-controlled raions (REF C). According to a local NGO, average investment per capita across Moldova for 2008 are projected at Moldovan Lei (MDL) 30. However, in PCRM- controlled raions the figure is MDL 60-65 (USD 1.00 equals MDL 10.50) per person, while in opposition-controlled raions it is only about MDL 7-14. By channeling more funding to PCRM-controlled local governments, the GOM bolsters the image of PCRM leaders and their ability to deliver results.

ECONOMIC WARFARE AGAINST CHISINAU AND GAGAUZIA

13. (C) In Chisinau, upon assuming his new duties last year Mayor Dorin Chirtoaca was immediately confronted with responsibility for funding the Valea Morilor lake reconstruction project begun by the previous Communist-led city government, but for which no money had been budgeted. (NOTE: The lake in Chisinau's most popular city park was drained, leaving the park with a marshy crater instead of a recreation area. END NOTE.) Similarly, the GOM refused financial assistance to Chisinau, when a court ordered the city to cover massive debts that the previous PCRM municipal government owed to heating distributor Termocom after the PCRM city government decided to subsidize residential heating tariffs (REF B). More recently, the GOM resurrected a decade-old court order requiring the Chisinau Municipal Council to provide living quarters for certain public servants (which would cost about Moldovan Lei 80 million) (REF A); a court ruled that it would impound and sell all city buses to raise money to satisfy this decree.

¶4. (C) In Gagauzia, Bashkan Formuzal recently complained to us about GOM actions that followed the same pattern of legal action to collect historic debts accumulated by his PCRM predecessor. The central government recently announced it would hold Formuzal responsible for a MDL 28 million debt, and deduct this amount from the central government allocation to the Gagauz budget. The debt was originally incurred in 1996 when the central government received credits from the World Bank to support the wine industry and one of the beneficiaries was Kirsovo, a Gagauz winery. The Ministry of Finance guaranteed payment to an Italian company which sold equipment to the winery; however, Formuzal's predecessor assumed responsibility for the credits assigned to Gagauzia. According to Formuzal, this sum will now be taken from Gagauzia's operating budget.

¶5. (C) Formuzal also complained about the way the central government was compensating Gagauzia for the loss of tax income because of the corporate restructuring of Union Fenosa. Union Fenosa, the Spanish owner of three power distribution companies, recently consolidated its operations into one corporate entity based in Chisinau. Previously, one of the three power distribution companies was registered in Gagauzia, paying MDL 5 million in taxes per year (one of the largest tax contributors to the region's budget). The change of juridical address to Chisinau resulted in a significant loss of tax income for Gagauzia. Formuzal complained that the Ministry of Finance had agreed to compensate the Gagauz budget for the loss of tax revenue, but has yet to do so. Formuzal said the Ministry of Finance has assured him that the transfers would happen (eventually).

¶6. (C) In yet another complaint, Formuzal said that the central government previously transferred its monthly budget allocation to Gagauzia by the 9th or 10th of the month. Now the central government was withholding transfers until the 28th or 29th, leaving him struggling to meet his financial obligations.

BUDGET PROCESS LACKS TRANSPARENCY

¶7. (C) In late 2007, we heard complaints from local governments about the PCRM's manipulation of the 2008 budget. The Ministry of Finance assured us that the budget met all legal requirements and had been negotiated with local governments. A fair distribution of funds is difficult to ascertain, given Moldova's subjective and opaque budget process. The Ministry of Finance and local governments must agree on per capita expenditures and projected revenues; however, local governments have no mechanism to challenge the budget decided by the GOM. The GOM's distribution of funds for investments also lacks transparency. In the most egregious example of political manipulation, the PCRM withheld all infrastructure funding for Chisinau for 2008 (REF D).

COMMENT

¶8. (C) Formuzal compared the GOM's financial squeeze to "death by a thousand mosquito bites." No single bite was enough to kill, but each one bled the economy a little. The PCRM-government appears to be escalating its use of financial pressure to hamper non-Communist leaders, in the hopes of overcoming the losses the PCRM sustained in the 2007 local elections. As the number of such cases increases, the pattern is becoming clearer, and we suspect the pressure will mount as the national elections draw near. Any PCRM attempt to fix the elections results will not likely come from ballot stuffing or election-day manipulations, but through deliberate attempts to cause opposition-led local governments to fail.

KIRBY